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SUBJECT: DOMINICAN REPUBLIC: TEXTILE AND APPAREL SECTOR UPDATE

REF: STATE 146213

¶1. Summary: Textile and apparel production represents an important part of the Dominican Republic's economy. Half of all companies in the Dominican Free Trade Zones (FTZs) are textile and apparel related companies and 98% of all Dominican textile and apparel companies are from the FTZs. In 2004 these companies generated more than USD 2 billion in revenue. The Dominican Republic is one of the largest consumers of U.S. textile inputs in Central America and the Caribbean region. The January 1, 2005 phase-out of textile and apparel quotas, the strong peso, and the unstable energy situation in the country have diminished the strength of the sector. The recent approval by both the United States and the Dominican Republic of the Central American and Dominican Republic Free Trade Agreement (CAFTA-DR) should improve the situation, but it is only the first step to secure revitalization of the sector. End Summary

Facts and Figures for the Year 2004

-FTZ's share of the total textiles and apparel exports: 98 %
-Total production value of the FTZs: USD 4,416 billion
-Total textile and apparel production value: USD 2,076 billion
-Textile/apparel's share of total FTZ exports: 47 %
-Total employment in the FTZs: 189,853
-Total textile and apparel employment: 131,978

(Source: Dominican Association of Free Trade Zones (ADOZONA) and the National Council for Free Trade Zone Exportation (CNZFE).)

Textile and Apparel Sector Review

¶2. Garment manufacturing has been one of the Dominican Republic,s major export products since the introduction of Dominican Free Trade Zones (FTZs) in 1969. Nearly all of the Dominican Republic,s exports of apparel come from the more than 40 FTZs.

¶3. Textile activities in the FTZs are mostly labor-intensive cut, make, and trim operations. Large companies such as Grupo M and Inter Americana, as well as some medium-sized companies design, knit, and finish garments. Several companies knit their own fabric, but most import fabrics. Approximately 85 percent of Dominican textile inputs come from the United States. The country also imports fabrics and yarns from a number of countries including Taiwan, China, Mexico, and South Korea.

¶4. Major Dominican FTZ garment manufactures are contractors for some of the most successful apparel companies in the world. They produce brand-name items in fashion wear, lingerie, sportswear and casual wear. Some of these companies include Fruit of the Loom, Victoria's Secret, Oshkosh B'Gosh, Eddie Bauer, Maidenform, Kasper, Hanes, Gap, Jones of New York, Liz Claiborne, Wrangler, and Levi's, among others.

Problems Within the Sector

¶5. While the 2005 removal of world textile and apparel quotas has affected the sector, the true villains robbing it of its competitiveness are the strong peso and high energy prices. In 2003 the peso reached an all-time low of RD$55 to USD$1. However, the peso recovered under the new administration of President Leonel Fernandez and currently averages around RD$30 to USD$1. The strong peso has made Dominican products relatively more expensive than those made elsewhere in the region. In dollar terms Dominican labor has become more expensive than that available in other countries in the region.

¶6. Executive Secretary of the Dominican Association of Free Trade Zones (ADOZONA) Jose Torres told EmbOff this September

that more than the removal of quotas, the strong peso is what is currently damaging the textile and apparel sector. He said that the full effect of the removal of quotas has not hit the Dominican Republic, thanks to safeguards against cheap Chinese exports put in place by the United States. However, he acknowledged that there is some pressure to reduce prices to meet heightened international competition. Torres added that he thought the safeguards have shifted some orders to Asian countries such as India that have been buying cheap Chinese textiles.

¶7. Approximately 40 textile factories, mostly Dominican-owned, have recently closed in the Dominican Republic. Since November 2004, 30,000 employees (representing almost 15 percent of the FTZ labor pool) have been laid off. In addition to these jobs, many others have been lost in the formal sectors that depend on the FTZs, such as utilities, transportation, and other services. There has also been significant job loss in the informal sectors that employees of apparel firms support, such as child care and street vendors.

¶8. Also affecting the Dominican textile and apparel sector is the current energy crisis. After labor, electricity is the second-biggest cost in garment production in the Dominican Republic. High energy theft coupled with low bill collections has left distribution companies financially stressed and has led to regular blackouts across the country. The power crisis has raised the electricity prices from the national power grid even further, making them among the world's highest. Recurring blackouts have increased dependence on expensive back-up generators. FTZ companies frequently use their generators, as most FTZ businesses are 24-hour operations.

Sector Solutions: CAFTA-DR and More

¶9. A November 2004 USAID study on textiles estimated that CAFTA-DR would prevent the loss of 24,000 jobs in the Dominican textile industry. Given the Dominican government's ratification of CAFTA-DR this September, the Mission expects the Dominican Republic,s textile and apparel industry to benefit from permanent duty-free access to the U.S. market and accompanying unlimited duty-free use of local and regional fabric and yarns. CAFTA-DR also permits limited access to woven-fabrics constructed in NAFTA countries, including Canada and Mexico, permits unlimited use of extra-regional trims and buttons, and for a few products, permits unlimited use of third-country fabrics.

¶10. CAFTA-DR,s rules of origin offer advantages over those of the Caribbean Basin Trade Partnership Act (CBPTA), which was signed in 2000. The CBTPA rules of origin require apparel to be constructed of U.S. fabrics and yarns and limit the use of non-regional trims and buttons. CBTPA is also subject to change or withdrawal at any time because it is not a negotiated trade agreement between countries, and there is no requirement that it be renewed when it expires in September 2008. CAFTA-DR has flexible rules of origin and once implemented does not need to be renewed. Therefore, CAFTA-DR gives the Dominican Republic a competitive boost over other Caribbean countries.

¶11. Apart from CAFTA-DR, there has been some government and private industry action to increase the Dominican Republic,s competitiveness in the area of textile and apparel. The Dominican government promised to find cheaper energy for FTZ businesses, according to ADOZONA, but thus far has not been successful. The government is also trying to attract investment in fabric production by informing companies of the benefits of CAFTA-DR.

¶12. The Dominican Government is modernizing its ports and increasing its efficiency. A private port, the Port of Caucedo is vying for certification under the Container Security Initiative (CSI) of the Department of Homeland Security. With CSI, Caucedo, already the largest and most modern Dominican ports, will be able to ship items to the United States as "pre-cleared,8 thus decreasing shipment time and costs.

¶13. Dominican contacts seem optimistic about the future for textile and apparel in the country, but they do realize the dangers they face when the full force of the removal of quotas hits the country. On September 28, the President of ADOZONA announced the establishment of two new textile companies, a USD 200 million-dollar investment. It is estimated that these new companies, one Canadian and the other American, will generate between 6000 and 8000 new jobs.

¶14. Some textile and apparel firms are diversifying their production and markets. In this, producers are moving from products that had a high margin of preference under the quota system, into items for which the United States has high duty levels. Likewise, a few textile and apparel companies are

beginning to fill short-order requests for U.S. companies. In this instance, the Dominican Republic can use its proximity as an advantage and fill such requests expediently. There are other areas for improvement. An AID report noted that Dominican textile and apparel firms should concentrate on non-traditional products, such as footwear.

¶15. Comment: The Embassy agrees that there is a future for the textile and apparel sector in the Dominican Republic. The Dominican Republic,s proximity to the United States is a major advantage for exports. Additionally, CAFTA-DR makes permanent many benefits under CBTPA and thereby gives the Dominican Republic a boost over other Caribbean nations. However, further job loss in the textile and apparel sector is likely. If the strong peso and the energy crisis continue, the increased international competition following removal of the textile and apparel quotas may further damage the sector. Textile and apparel producers must enhance their competitiveness by focusing on diversification of exports, and more rapid production and delivery. Additionally, the Dominican Government needs to improve infrastructure, including tackling the energy crisis.
Hertell